Cepsa reports Clean CCS EBITDA of €633 million in the first half of 2020

- **Cepsa posted Clean CCS EBITDA of €633 million for the first half of 2020, down 37% YoY mainly as a result of the impact of Covid-19 on markets and demand, affecting the Upstream, Refining and Marketing businesses, especially during the second quarter, offset by strong performance in Petrochemicals and cost savings.**

- **Cash flow from operations[1] for the first half of 2020 was €439 million, slipping 46% YoY, with all four businesses generating positive cash flow during the period.**

- **Clean CCS Net Income was negative €8 million for the six-month period ended June 30, 2020. The sharp decrease in crude oil prices caused by the Covid-19 pandemic has impacted the company's inventory valuation, resulting in a non-cash effect of negative €464 million. In addition, Cepsa revised its long-term price forecasts, which triggered non-cash asset impairments of upstream assets of €331 million. As a result, IFRS Net Income for the first half of 2020 stood at negative €841 million compared to €273 during the same period of 2019.**

- **Following the onset of the Covid-19 pandemic, the priority of the company has been to protect the health and safety of all of its employees, customers and suppliers and to continue with its operations as an essential energy provider, ensuring the supply of energy products and services to its customers and society at large.**

- **In response to the decline in crude oil prices and outbreak of the Covid-19 pandemic, the company launched a Contingency Plan comprising a number of initiatives to preserve cash flow generation, initially expected to deliver savings of €310 million. These savings have now been revised upwards to €500 million and include €120 million in operating cost reductions and €380 million in capex cuts. As of June, €275 million in savings have been captured. In addition, the company will continue optimizing its working capital.**

- **The company's balance sheet remains robust, with liquidity[2] of €4.5 billion[3] covering 4.5 years of debt maturities and a Net Debt to LTM EBITDA ratio of**

[1] Before working capital.
[2] Defined as cash on balance sheet plus available committed credit facilities.
[3] Pro-forma for the €500 million bond issued in July 2020.

2.0x[4]. So far this year, the company extended the average maturity of its debt by tapping debt capital markets twice, with two €500 million bond issues, which achieved large oversubscriptions. In addition, all three rating agencies affirmed Cepsa's investment grade ratings in 2Q 2020.

- **With its new organisational structure in place, Cepsa is currently redefining its strategy to meet the challenges of the energy transition and has created a new ESG cross-functional division reporting directly to the company's CEO, which is already working to define specific short and long-term targets in this field.**

Philippe Boisseau, Cepsa CEO:

"Cepsa's half year 2020 results have been affected by the significant drop in crude oil prices, the low refining margin environment and the decrease in oil product demand as a result of the Covid-19 pandemic and lockdown measures imposed in Spain and Portugal.

To address this challenging market environment, we implemented a Contingency Plan which comprises a broad range of initiatives aimed at preserving the solidity of the business and the company's cash flow generation. Our integrated business model, which has proven to be strongly resilient in these unprecedented circumstances, provides us with considerable flexibility to implement a number of operating cost and capex reduction initiatives, which add up to more than €500 million in savings across all our different business units and functional areas, in order to adapt to a constantly changing market landscape. As we move into the second half of the year, we will continue to work hard to achieve these savings and rigorously manage and optimize the company's working capital.

As of June 1st, we have a new organisational structure in place with three newly hired Executive VPs and a restructured Executive Committee poised to meet the challenges of the energy transition, drive Cepsa's international growth, and expand each of our businesses as well as develop new ones. To achieve these goals, we will optimize our integrated business model, enhance our competitiveness and continue to pursue operational excellence".

[4] Excludes the impact of IFRS16.

Market Indicators

Market Indicators	2Q'20	1Q'20	2Q'19	Variation vs. 2Q'19	Variation vs. 1Q'20	YTD 2020
Dated Brent oil price ($/bbl)	29.2	50.3	68.8	*(58)%*	*(42)%*	39.9
Cepsa refining margin - VAR ($/bbl)	2.2	4.7	3.3	*(33)%*	*(53)%*	3.6
Dutch TTF Natural gas price (€/MWh)	5.6	9.5	12.9	*(57)%*	*(41)%*	11.2
Spanish pool price (€/MWh)	23.2	34.9	48.7	*(52)%*	*(34)%*	29.0
Average EURUSD FX	1.10	1.10	1.12	*(2)%*	*(0)%*	1.10

Financial Summary

Financial Summary - € millions (unless otherwise stated)	2Q'20	1Q'20	2Q'19	Variation vs. 2Q'19	Variation vs. 1Q'20	YTD 2020
Upstream	62	165	272	*(77)%*	*(62)%*	227
Refining	(11)	95	82	*(114)%*	*(112)%*	84
Marketing	52	124	122	*(57)%*	*(58)%*	176
Chemicals	86	79	66	*30%*	*9%*	165
Corporation	(9)	(10)	(13)	*(33)%*	*(7)%*	(19)
Clean CCS EBITDA	**180**	**453**	**529**	***(66)%***	***(60)%***	**633**
Clean CCS EBIT	(27)	245	332	*(108)%*	*(111)%*	219
Clean CCS Net Income	(93)	85	129	*(172)%*	*(209)%*	(8)
IFRS Net Income	(286)	(556)	122	*(335)%*	*(49)%*	(841)
Cash flow from operations before working capital	**86**	**353**	**477**	***(82)%***	***(76)%***	**439**
Capex	**(168)**	**(161)**	**(185)**	***(9)%***	***4%***	**(328)**
Free cash flow	**(135)**	**(215)**	**239**	***(157)%***	***(37)%***	**(350)**
Free cash flow before working capital	**(144)**	**37**	**165**	***(187)%***	***(487)%***	**(107)**
Net debt (a)	**3,131**	**2,991**	**2,978**	***5%***	***5%***	**3,131**
Net debt to LTM CCS EBITDA (excl-IFRS16)	**2.0x**	**1.6x**	**1.6x**	***28%***	***28%***	**2.0x**
Liquidity (b)	**4,524**	**3,450**	**2,921**	***55%***	***31%***	**4,524**

(a) Excluding IFRS16 liabilities.
(b) Defined as cash on balance sheet and available credit facilities. Pro-forma for the €500 M. bond issue in July.

Operational KPIs

Operational Overview	2Q'20	1Q'20	2Q'19	Variation vs. 2Q'19	Variation vs. 1Q'20	YTD 2020
Working interest crude production (kbopd)	76.0	84.0	95.0	*(20)%*	*(10)%*	80.0
Realized crude price($/bbl)	27.8	55.8	67.7	*(59)%*	*(50)%*	40.1
Upstream operating costs ($/boe)	10.3	10.3	9.5	*9%*	*0%*	10.3
Refining output (mton)	4.4	5.4	5.4	*(19)%*	*(19)%*	9.8
Refining utilization (%)	74%	88%	91%	*(19)%*	*(16)%*	81%
Cepsa refining margin - VAR ($/bbl)	2.2	4.7	3.3	*(33)%*	*(53)%*	3.6
Marketing product sales (mton)	3.0	4.3	5.4	*(45)%*	*(32)%*	7.3
Chemical product sales (kton)	691	725	712	*(3)%*	*(5)%*	1,416
Electricity production (GWh)	490	522	944	*(48)%*	*(6)%*	1,011
Natural gas sales (GWh)	6,263	8,665	8,892	*(30)%*	*(28)%*	14,927
Installed renewable power capacity (MW)	28.9	28.9	--	-	-	28.9

Management Discussion

In Q2 2020, Cepsa posted Clean CCS EBITDA of €180 million, a 67% decline YoY as a result of the significant drop in crude oil prices, low refining margins and the slump in oil product demand due to Covid-19. Clean CCS EBITDA for the first half of 2020 stood at €633 million.

Upstream Clean CCS EBITDA for the second quarter was €62 million (€227 million YTD), sliding 78% YoY, negatively impacted by lower crude prices (-58% YoY) and lower production (-20% YoY) mainly due to OPEC quota restrictions affecting both Algeria and Abu Dhabi. Working interest production amounted to 76 kbopd.

Refining Clean CCS EBITDA amounted to negative €11 million in Q2 2020 (€84 million YTD), down 114% YoY, attributable to a weaker refining margin environment (-33% YoY) and lower production (-19% YoY), as refinery runs were adjusted to lower demand. In a very challenging market environment, Cepsa's refining business has demonstrated operational flexibility and the ability to optimize production, in order to ensure the supply of energy products to the domestic market. Refineries ran at an average utilization rate of 74% in 2Q 2020.

In the second quarter, Marketing Clean CCS EBITDA fell 57% YoY to €52 million (€176 million YTD), weighed by lower demand following the lockdown in Spain. The gradual reopening of the Spanish economy in 2Q resulted in increased volumes towards the end of the quarter. By the end of June, all service stations were operational.

Chemicals delivered Clean CCS EBITDA of €86 million in Q2 2020 (€165 million YTD), up 30% YoY as a result of the strong performance of the LAB segment, lifted by higher volumes (+11% YoY) and the rebound in margins and volumes in the Phenol-Acetone segment. The resilient nature and strong performance of this business managed to partially offset lower earnings in other business units.

Cash flow from operations[5] in the quarter was €86 million (€439 million YTD).

Clean CCS Net Income in Q2 2020 was negative €93 million (negative €8 million YTD), while IFRS Net Income stood at negative €286 million (negative €841 million YTD), adversely impacted by additional non-cash asset impairments of upstream assets amounting to €130 million and a non-cash inventory valuation effect of negative €21 million.

[5] Before working capital.

Recent Developments

The economic impact of the Covid-19 pandemic coupled with the decrease in crude oil prices have resulted in a challenging and uncertain market environment.

During the second quarter of 2020, both crude oil prices and refining margins (VAR) plunged to record lows for 2020, with average values of $18/bbl in April and $0.7/bbl in May, respectively. Demand for oil products has also been severely hit by the pandemic and the subsequent lockdowns in Spain, particularly affecting automotive fuel demand, where consumption on average dropped 42% YoY, and jet kerosene, with approximately a 92% decline YoY. The decrease in kerosene demand, however, has been somewhat offset by higher internal consumption at Cepsa's chemical plants, as this product is used as a raw material to produce LAB, in high demand on account of the Covid-19 pandemic.

Despite this sharp drop in demand, as the quarter evolved and lockdown restrictions in Spain were progressively eased, volumes have been recovering at a good pace, with automotive fuel demand going from -61% in March to -20% in June, YoY.

Throughout this period, Cepsa has been constantly monitoring trends and developments in oil product demand in order to adapt its refinery runs to the reality of the marketplace. As such, during the month of April, when demand fell to its lowest point due to stringent lockdown measures in Spain, refineries were running at 70% of their capacity. At the end of June, however, refineries were already running at 82% utilization and are expected to edge up to 85% during the month of July and steadily approach the optimal run rate by year-end, assuming the positive trend in demand continues.

In response to deteriorating market and economic conditions, Cepsa put in place a Contingency Plan with a range of actions aimed at protecting cash flow generation for the year. Some of these actions include:

- Firm capital discipline, with a reduction of approximately 20% of budgeted capex for the year, equivalent to approximately €210 million. This figure has now been revised upwards to €380 million.
- The reduction of fixed operating expenses across all business units and operations, with the objective of achieving savings of more than €100 million in 2020 compared to the 2019 cost base. Expected cost savings have also been revised upwards to €120 million.
- Continued strict working capital management.

In May, Cepsa launched a new organization to address the challenges of the energy transition by internationalizing its businesses and strengthening its integrated business model. This new organization, which came into effect on June 1st, is led by Cepsa's CEO, Philippe Boisseau, and managed by a new leadership team composed of both newly hired executives alongside seasoned Company professionals with extensive international experience in the oil & gas and chemical industries.

Cepsa's new management team is already working to shape a new strategy based on international expansion and the development of new businesses with an increased focus on renewables,that will drive and accelerate Cepsa's transformation and growth in the context of a continuously evolving energy landscape and market environment.

In June, Cepsa signed a partnership deal with Madjaline Holding group, to jointly develop the asphalt business in Morocco and capitalize on synergies. Through this agreement, which allows Cepsa to continue growing its business internationally in priority areas such as North Africa, Cepsa has acquired a 40% stake from its new partner in two companies - Sorexi and Bitulife - longstanding leaders in the Moroccan market for the production and distribution of asphalt and asphalt coatings for the road building and construction industries.

Cepsa's Investment Grade credit ratings were recently affirmed by all three rating agencies. Both Fitch and Moody's confirmed Cepsa's ratings in April, at BBB- with stable outlook and Baa3 with negative outlook, respectively. Moody's change in outlook is not company specific but reflects the agency's concerns about the sector in general, as a result of the oil price rout and Covid-19 pandemic. More recently, in June, S&P confirmed Cepsa's BBB- rating with stable outlook.

Subsequent Events

During July and August, we expect a further recovery in oil products demand in Spain and Portugal, mainly driven by the steady pick-up in economic activity, coupled with an increase in consumption due to the summer holiday season.

In July, Cepsa successfully completed its third bond issuance for €500 million, maturing in 2026, achieving a wide oversubscription of 3.2 times the volume offered. The bonds were rated as investment grade by the three main rating agencies (Moody's, S&P and Fitch), and pay an annual coupon of 2.25%. This issuance has allowed Cepsa to reinforce its liquidity position from €4.0 at the end of June, to €4.5 billion, diversifying its sources of funding and increasing the average maturity of its debt to 4.3 years. The proceeds of the issuance have been used for general corporate purposes, including the refinancing of outstanding debt. This placement consolidates the Company's position in the debt capital markets with three issuances in just over a year and enables Cepsa to continue to lay the foundations for accomplishing the Company's growth plan.

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Cepsa is a global energy and chemical company operating end-to-end in every stage of the oil and gas value chain. It also manufactures products from raw materials of plant origin and is active in the renewable energy sector.

It has 90 years of experience and a team of over 10,000 employees, who combine technical excellence with adaptability. It operates across all five continents through its business areas: Exploration and Production, Refining, Sales and Chemicals.

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